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TO AMEMBASSY BUCHAREST

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E.O. 11652: N/A

TAGS: BDIS, RO

SUBJ: TRADE COMPLAINT: UNIVAC

REF: BUCHAREST 4073

BUCHAREST 4140

1. REPORT DATED 03 APRIL FROM UNIVAC REPRESENTATIVE IN VIENNA REPORTS SIGNATURE OF TECHNICAL ANNEXES OF UNIVAC/ROMANIAN RAILROAD CONTRACT SIGNED BY BOTH PARTIES 27 FEBRUARY.

2. CONTINUING DELAY IN FINAL SIGNATURE COMMERCIAL SEGMENT OF CONTRACT ATTRIBUTED TO NEW ROMANIAN LEGISLATION, EFFECTIVE 10 JANUARY, LEVYING TAX ON FOLLOWING ITEMS: (A) INTEREST PAID ON COMMERCIAL CREDITS AND (B) VARIOUS SERVICES PERFORMED IN ROMANIA SUCH AS INSTALLATION TRAINING, ACCEPTANCE TESTING, AND WARRANTY SERVICE. LAW SPECIFICALLY PERMITS ROMANIAN MINISTRIES TO APPLY FOR EXEMPTION FROM ALL TAXES VIA
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APPLICATION TO THE COUNCIL OF MINISTERS.

3. UNIVAC HAS BEEN INFORMED THAT THE MINISTRY OF TRANSPORT IS APPLYING FOR SUCH AN EXEMPTION, AFTER WHICH THE COMMERCIAL SEGMENT OF THE CONTRACT IS EXPECTED TO BE SIGNED.

4. WORDING ON THE MINISTRY OF TRANSPORT CONTRACT WOULD BE SIMILAR TO THAT IN CONTRACT WITH MINISTRY OF TOURISM PREVIOUSLY SIGNED BY ELECTRONUM.

5. IMPLEMENTATION ON MINISTRY OF TOURISM CONTRACT ALSO BEING HELD UP PENDING RESOLUTION OF TAX ISSUE. ACCORDING TO THE PRESENT CONTRACT, THE BURDEN OF THE NEW TAX WOULD BE BORNE BY THE ROMANIANS, RATHER THAN UNIVAC.

6. PARTIES STILL DISCUSSING CONVERSION OF CONTRACT TO PROGRESS PAYMENTS, THUS AVOIDING TAXES ON INTEREST. AT THE SAME TIME, ELECTRONUM IS PREPARING A STATEMENT FOR THE ROMANIAN FINANCIAL AUTHORITIES POINT OUT THAT THE SERVICES PROVIDED BY UNIVAC, AS PART OF THE SUPPLIER'S BUNDLED HARDWARE PRICE, ARE NOT PRICED OUT IN THE CONTRACT, AND THEREFORE SHOULD NOT BE SUBJECT TO THE TAX. OUTCOME OF MINISTRY OF TOURISM EFFORT COULD THEREFORE BEAR SIGNIFICANTLY ON PROSPECTS FOR CONCLUSION OF MINISTRY OF TRANSPORT SALE.

7. ACTION REQUESTED: ALTHOUGH FOREGOING REPORT INDICATES THAT EARLIER DIFFICULTIES WHICH PRECIPITATED ELECTRONUM THREAT TO EXCLUDE UNIVAC FROM THE ROMANIAN MARKET APPEAR TO HAVE BEEN RESOLVED, EMBASSY MAY WISH TO FOLLOW NEGOTIATIONS TO AVOID FURTHER DIFFICULTIES. ADDITIONAL REPORTS OF EXPERIENCE OF OTHER US, WESTERN EUROPEAN FIRMS IN DEALING WITH NEW TAX LEGISLATION ALSO APPRECIATED.
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